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Attention: Brad Setso, Chairperson

**VIA EMAIL – james.cowpar@gwaiitrust.com**

James Cowpar  
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Warren Foster  
Trustee, Athlii Gwaii Legacy Trust  
PO Box 1301  
Skidegate BC V0T 1S1

July 13, 2015

Dear Trustees:

**Re: Athlii Gwaii Legacy Trust (“AGLT” or the “Trust”)**

We write in our capacity as “Protector” pursuant to the Deed of Trust (the “Deed”) made on the 29th day of March 2007 by the Gwaii Trust Society to provide the Protector’s determination as to whether there may have been a Breach under the Deed during the Fiscal Year ended December 31, 2014 (“Fiscal 2014”). For purposes of this reporting letter, all defined terms, unless otherwise defined herein, have the meaning as set out in the Deed.

Our comments are organized under the following subject headings:

- (1) Breach Determination and Review of Reporting Material
- (2) Other Disclosure Matters
- (3) Protector Determination

**BREACH DETERMINATION AND REVIEW OF REPORTING MATERIAL**

Pursuant to Section 38 of the Deed, the Protector is required to determine, within ninety days of the receipt of the Financial Statements and Operations Report in each Fiscal Year, whether the Trustees are in breach of their obligations under the Deed or Applicable Law or whether there are reasonable grounds to believe that any or all of the Trust Property has been used, with the knowledge and acquiescence of the Trustees, for one or more purposes that are other than one or more of the Purposes during the Year just ended. Following the making of this determination, the Protector is required to provide to the Trustees either a written notice that it has found no Breach or, if there are reasonable grounds to believe that there may have been a Breach, a Notice of Breach.



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In considering whether there has been a Breach under the Deed, the Protector has performed a review of the Reporting Material and conducted such inquiries as deemed necessary. As a result of the Protector's review, the following items have been identified as not being in compliance with the requirements set out in the Deed:

(a) Quarterly Statements in respect of the Fiscal Quarter ended March 31, 2014.

- An unsigned copy of the quarterly financial statements for the Fiscal Quarter ended March 31, 2014 was delivered to the Protector on May 8, 2014. These financial statements were dated April 29, 2014. A signed copy of these financial statements was delivered to the Protector on May 22, 2014.
- Pursuant to Section 36(a) of the Deed, the Quarterly Statements are to be provided to the Protector within thirty days of the end of such Fiscal Quarter. In this case, the due date for the submission of the financial statements for the quarter ended March 31, 2014 was no later than April 30, 2014.
- As discussed in the previous three Protector's letters to the Trustees dated September 23, 2012, July 15, 2013 and July 18, 2014 (the "2014 Letter"), the Protector is generally agreeable to allowing the Trustees a short additional period of time for preparing and delivering the signed Quarterly Statements (as well as the annual Financial Statements) to the Protector if they encounter difficulties in meeting the deadline imposed by the Deed, provided that the Trustees communicate any anticipated delay to the Protector with a reason for the delay and then deliver the signed Quarterly Statements (or annual Financial Statements) to the Protector as soon as reasonably possible.
- In the case of the quarterly financial statements for the Fiscal Quarter ended March 31, 2014, the Protector was not advised of any delay in preparing the Quarterly Statements.

(b) Quarterly Statements in respect of the Fiscal Quarter ended June 30, 2014.

- An unsigned draft of the quarterly financial statements for the Fiscal Quarter ended June 30, 2014 was delivered to the Protector on July 28, 2014. A signed copy of the Quarterly Statements, dated July 28, 2014, was delivered to the Protector on August 12, 2014.
- Pursuant to Section 36(a) of the Deed, the Quarterly Statements are to be provided to the Protector within thirty days of the end of such Fiscal Quarter. In this case, the due date for the submission of the financial statements for the quarter ended June 30, 2014 was no later than July 30, 2014.
- The delay in delivery of the signed copy of these Quarterly Statements to the Protector was acceptable to the Protector because the Trustees notified the Protector of the potential delay in finalizing the Quarterly Statements on July 28, 2014 and provided a draft version of the statements to the Protector on the same date.



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(c) Financial Statements in respect of the Fiscal Year ended December 31, 2014.

- A draft version of the Financial Statements for Fiscal 2014 was delivered to the Protector on February 13, 2015. A signed copy of the finalized Financial Statements for Fiscal 2014, dated February 11, 2015, was delivered to the Protector on March 4, 2015.
- Pursuant to Section 36(b) of the Deed, the Financial Statements for each Fiscal Year are to be provided to the Protector within forty-five days of the end of such Fiscal Year. In this case, the due date for the submission of the Financial Statements for Fiscal 2014 was no later than February 14, 2015.
- The delay in delivery of the finalized copy of these Financial Statements to the Protector was acceptable to the Protector because the Trustees notified the Protector on February 13, 2015 that the audit and delivery of the Financial Statements had been delayed, and the draft Financial Statements were provided to the Protector before February 14, 2015.

(d) Operations Report in respect of the Fiscal Year ended December 31, 2014.

- A draft Operations Report for Fiscal 2014 was delivered to the Protector on March 5, 2015. The Protector provided its comments on the report to the Trustees and the Trustees delivered the finalized Operations Report for Fiscal 2014 to the Protector on March 21, 2015.
- Pursuant to Section 36(b) of the Deed, the Operations Report is to be provided to the Protector within forty-five days of the end of such Fiscal Year. In this case, the due date for the submission of the Operations Report for Fiscal 2014 was no later than February 14, 2015.
- As with the Financial Statements for Fiscal 2014, the delay in the delivery of the Operations Report for Fiscal 2014 to the Protector was acceptable to the Protector because the Trustees notified the Protector on February 13, 2014 of the delay in completion and delivery of the Reporting Material for Fiscal 2014.

## **OTHER DISCLOSURE MATTERS**

In considering whether there may have been a Breach, the Protector has identified and generally discussed with the Trustees the following matters, which may not all have been contemplated when the Deed was prepared:

### Investment Monitoring

- In the Protector's 2014 Letter, the Protector noted that, based on investment reporting from the Trustees, it was unknown whether the Trust's investment portfolio was in full compliance with all of the terms of its Statement of Investment Policies and Procedures ("SIPP"), including the quantitative and qualitative guidelines. Accordingly, the Protector recommended to the Trustees that they implement a monitoring process to confirm whether the Trust's investment managers and the investment portfolio are in compliance with SIPP terms, and that compliance reports be delivered to the Protector on a go-forward basis once a monitoring process was put in place.
- To date, a comprehensive investment monitoring process has not been implemented by the Trustees.



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- The Protector continues to be of the view that it is important for the Trustees to develop and implement a program for the continued monitoring of the Trust's investments for compliance with SIPP terms and continues to recommend that the Trustees implement such a monitoring process as soon as reasonably possible.

#### General Controls

- Certain internal control issues were identified in the Protector's letters to the Trustees dated August 2, 2011 and September 23, 2012, and the Protector recommended that the Trustees implement additional internal controls to prevent those issues from reoccurring. The Protector understands that the Trustees subsequently implemented certain additional internal controls.
- However, the Protector identified certain occurrences of the same internal control issues during 2014, in which the Trust issued a total of four cheques at times when there were insufficient funds in the Trust's bank account and resulting overdrafts occurred.
- The Protector is of the view that the Trustees should review their internal controls to ensure that they are sufficient to eliminate the possibility of these internal control issues from reoccurring in the future.
- The Trustees should confirm to the Protector within 60 days from the date of this letter that they have further reviewed AGLT's internal controls and are satisfied that they are sufficient and should also provide a copy of the current internal controls document to the Protector.

#### Strategic Plan

- As discussed in the Protector's 2014 Letter, the Trustees have deferred preparing a revised five-year Strategic Plan, which was required pursuant to Section 23 of the Deed to have been prepared during 2013, on account of the Trustees' ongoing discussions with the Government of British Columbia ("BCG") in respect of obtaining certain statutory amendments to the Trust, as well as to provide the Trustees additional time to complete a consultation process with the Communities in respect of matters relating to, amongst other things, the administration of future funding of Eligible Projects.
- The Protector understands that, as at the date of this letter, the Trustees' discussions with BCG are ongoing and that it remains uncertain when those discussions will be completed and additional statutory amendments granted by the BCG.
- Accordingly, the Protector remains of the view that the Trustees' delay in preparing a revised Strategic Plan is reasonable in the circumstances.
- However, according to the Reporting Material for Fiscal 2014, the Trustees are considering resuming the funding of Eligible Projects during Fiscal 2015. The Trustees have proposed to, instead of preparing a revised five-year Strategic Plan prior to completion of the current negotiations with the BCG, prepare an interim business plan setting out how, and by whom, the administration of the granting process and monitoring of funded Eligible Projects will be conducted (the "Interim Plan").



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- The Protector understands that the Trustees are, as at the date of this letter, working to prepare and document the Interim Plan with a view to commencing the process of reviewing, accepting and funding Eligible Projects during Fiscal 2015. The Protector requests that the Trustees deliver the Interim Plan to the Protector when it is completed and prior to commencing the process of reviewing, accepting and funding Eligible Projects.

## **PROTECTOR DETERMINATION**

Pursuant to the Protector's review of the Reporting Material and its other inquiries, and as discussed above, the Protector has identified certain items that were not in compliance with the requirements set out in the Deed. Pursuant to the requirements of the Deed, these items could technically be considered as a Breach. However, these items had been resolved prior to the date of this letter. Consequently, the Protector does not believe that further action on its part is warranted at this time.

Accordingly, pursuant to Section 38(a) of the Deed, the Protector has found no reportable Breach for the Fiscal Year ended December 31, 2014.

However, the Protector asks that the Trustees, as requested above, provide the Protector with confirmation that they have reviewed and are satisfied with the sufficiency of AGLT's internal controls, provide the Protector with a copy of the internal controls document, confirm to the Protector once an investment compliance monitoring program has been developed and implemented, and deliver the Interim Plan to the Protector when it has been developed.

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Should you have any questions or concerns with respect to the foregoing, please do not hesitate to contact Anthony Tillman on (604) 646-6332, atillman@kpmg.ca.

Yours very truly,  
**KPMG Inc.**, in its  
capacity as Protector  
and not in its personal capacity

Anthony Tillman  
*Senior Vice-President*

Mark Kemp-Gee  
*Senior Manager*

cc Tony Knox, KNOX & Co.